

## Hungary: Core inflation breaks out of target range

While headline inflation has remained steady for three months, core inflation moved to 4.2% year-on-year, mainly on the excise duty hike



Source: Shutterstock

# 2.7%

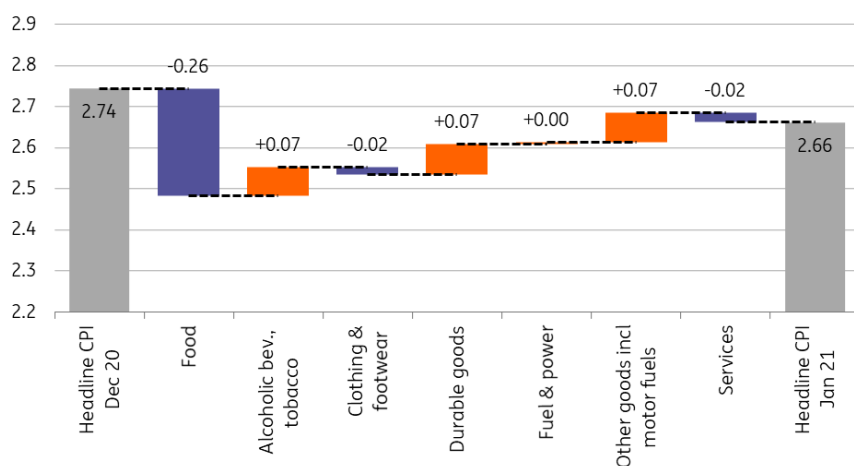
## Headline CPI (YoY)

ING forecast 2.6% / Previous 2.7%

As expected

Hungary's headline inflation rate has been steady at 2.7% year-on-year since November following three months of decline. In January 2021, this was a result of a 0.9% average price increase over a month. Both readings matched the market consensus, causing no major surprise. The details also roughly match our expectations.

## Main drivers of headline CPI change (%)

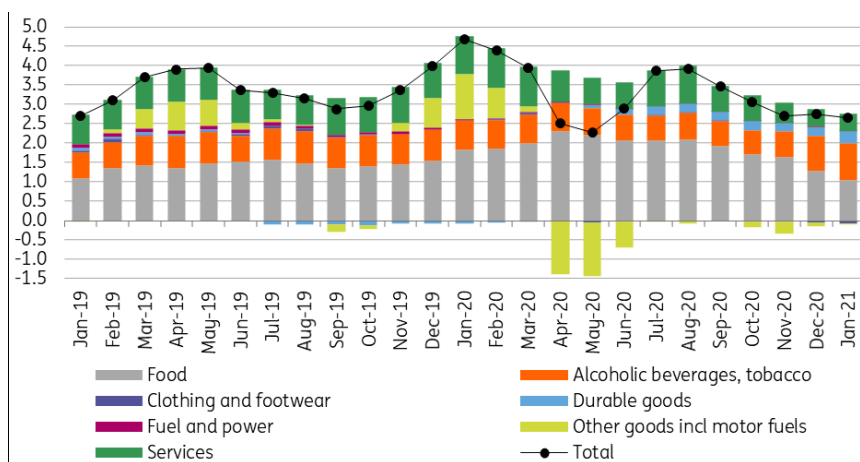


Source: HCSO, ING

## What the breakdown shows

- Fuel prices rose by 3.9% on a monthly basis, as a result of elevated oil prices. Despite the strong increase, prices are still down by 3.5% YoY. From February, the base effect will push inflation higher.
- An excise duty hike in tobacco products took effect from 1 January 2021. Producers started price increases in December, translating into a 5.2% month-on-month change, and in addition in January we saw a further 3% increase. Tobacco prices now are 16.5% higher than a year ago.
- Durables prices continue to surprise on the upside. The year-on-year reading rose to 3.1%, a figure not seen in years, adding pressure to the core inflation rate along with tobacco prices.
- Inflation in services, clothing and food contributed less to headline inflation. This came partly from price changes, and partly from re-weighting.

## The composition of headline inflation (ppt)



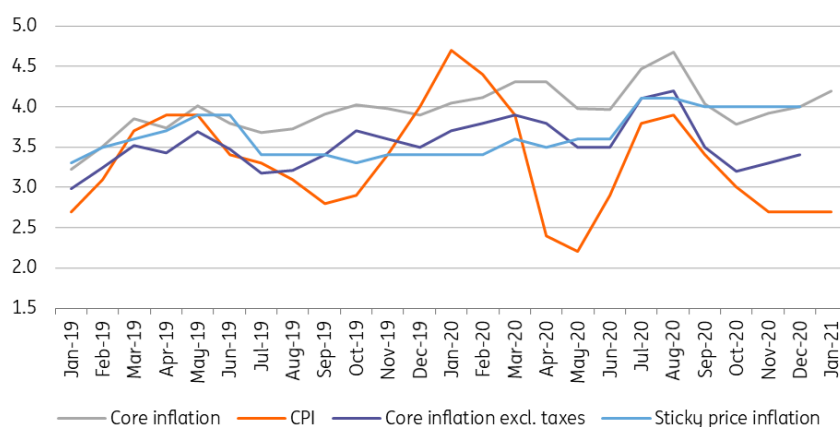
Source: HCSO, ING

Speaking of which, the Statistical Office has executed the usual January re-weighting of the

consumer basket. In 2021, the consumer basket will be based on the 2019 consumption structure, so no changes to the 'n-2' year rule. Somewhat surprisingly, the weight of services decreased from 27.3% to 25.9%. This change could come in handy when services inflation picks up as the economy reopens and we see a possible demand-supply mismatch.

Coming back to factors moving inflation, it was mainly the core elements that pushed prices higher, so it hardly comes as a surprise that core inflation increased further. After a 0.2ppt increase, it came in at 4.2% year-on-year in January. Tax effects increased further (mainly on excise duty changes) to 0.7ppt, meaning that core inflation, excluding indirect taxes, came in at 3.5% YoY.

## Headline and core inflation measures (% YoY)



Source: HCSO, ING

### What's next?

In all, the January 2021 inflation data has not yet substantially changed this year's inflation outlook. The main question remains what will happen to prices (especially in services) after the economy reopens. If all goes well, we will get an answer to this in the spring. In the meantime, inflation is expected to pick up in the coming months due to the low base. According to our current calculations and forecast, the headline CPI may temporarily jump to 4% YoY (or even higher) in May. We expect the National Bank of Hungary to look through this spike.

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